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STABILITY OF INDONESIA'S FINANCIAL SYSTEM IN THE ERA BANKING DIGITALIZATION

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ABSTRACT: Indonesia has experienced a significant acceleration in banking digitalization in recent years. This study aims to explore how banking digitalization affects the stability of Indonesia's financial system based on literature studies and public reports. The method employed is a literature analysis using secondary data from Bank Indonesia, the Financial Services Authority (OJK), and scholarly journals. The findings indicate that banking digitalization provides substantial opportunities for enhancing financial inclusion, transaction efficiency, and economic growth, but it also poses risks such as cyberattacks, data breaches, and regulatory challenges. To maintain financial system stability, it is necessary to strengthen regulations, improve IT security governance, enhance public digital literacy, and integrate Islamic finance principles, particularly in Islamic banking institutions.

Keywords: Financial System Stability, Banking Digitalization, Cyber Risk, Regulation, Islamic Finance.

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INTRODUCTION

Banking digitalization in Indonesia has experienced rapid development, marked by an increase in digital transactions through mobile banking, internet banking, and the QRIS payment system. The value of digital banking transactions was recorded at IDR 5,335.33 trillion in January 2024, a 17.19% increase compared to the previous period (Media Indonesia, 2024). Bank Indonesia projects that the value of digital banking transactions will reach IDR 71,584 trillion by the end of 2024, a growth of approximately 23.2% compared to the previous year (Kontan, 2023). This development demonstrates the acceleration of digital transformation, bringing convenience, efficiency, and financial inclusion, but also giving rise to new risks that have the potential to disrupt financial system stability.

This phenomenon raises questions about how banking digitalization affects the stability of Indonesia's financial system, the risks arising from digital transformation, and strategies that can be implemented to maintain stability.

This study aims to analyze the impact of digitalization on financial system stability, identify associated risks, and evaluate the role of Islamic financial principles in strengthening the financial system in the digital era. The approach used is based on a literature review, utilizing secondary data from official reports, scientific journals, and other reliable sources.

LITERATURE REVIEW

Financial System Stability Theory

Financial system stability is a condition in which financial institutions, markets, and their supporting infrastructure are able to perform their intermediary function, channel funds efficiently, and absorb economic shocks without causing systemic disruption. According to Bank Indonesia (2023), a stable financial system is characterized by a functioning financial intermediation function, a smooth payment system, and the ability of financial institutions to meet their obligations. This stability is a crucial factor in maintaining sustainable economic growth and public trust in the national financial system.

From an Islamic economic perspective, financial system stability is measured not only by financial resilience but also by distributive justice, honesty, and balance in economic activity. Principles such as the prohibition of usury, justice ('adl), and risk sharing are important.)It is the foundation for creating stability that is oriented towards social welfare (Chapra, 2008).

Therefore, a stable financial system is not only free from crises, but also upholds moral and social values in economic activities.

Banking Digitalization

Banking digitalization is the process of transforming financial services that integrates digital technology into all aspects of bank operations. Bank Indonesia (2022) defines banking digitalization as the use of information and communication technology to improve the efficiency, convenience, and access of banking services for the public. Its main components include mobile banking, internet banking, electronic payment systems (such as QRIS and BI- FAST), and the development of data and network security infrastructure.

Digital transformation in the banking sector has had a positive impact on operational efficiency and expanded financial inclusion. Digitalization makes it easier for people to conduct financial transactions without time and location constraints, while accelerating the intermediation of funds in the economy.

According to the Financial Services Authority (OJK) (2024), digitalization also encourages increased transparency and transaction oversight through an integrated data system. However, accelerating digitalization requires regulatory readiness, data protection, and the ability of financial institutions to adapt to rapid technological innovation.

Risk In Era Globalization To Stability Finance

While banking digitalization offers numerous benefits, this transformation also presents a number of new risks that could impact the stability of the financial system. The main risks include cyber risk, customer data breaches, operational risks due to IT system failures, and risks to public trust in data and transaction security. The Financial Services Authority (OJK) (2023) noted that the increase in cyberattacks in the financial sector requires strengthening security infrastructure and information technology governance.

In addition to cyber risks, there is also the risk of technological disparities among financial institutions, with large banks having greater adaptability than smaller institutions, potentially creating a competitive imbalance. Another relevant risk is regulatory and compliance risk, as technological developments outpace regulatory adaptation. All of these factors, if not properly managed, could undermine public trust and undermine the stability of the national financial system.

Islamic Finance And Sharia Principles As A Support For Stability

Islamic finance plays a vital role in maintaining the stability of the financial system through the application of sharia principles, which emphasize fairness, transparency, and a balance between profit and risk. Key principles of Islamic finance include the prohibition of usury (riba),the prohibition of gharar (uncertainty), and the prohibition of risk (mutual benefit). excessive), and the principle of profit sharing (mudarabah and musyarakah) creates a more stable financial system because it avoids speculative practices and excessive debt (Antonio, 2001).

Furthermore, Islamic financial instruments such as zakat, waqf, and sukuk can serve as social and economic buffers during shocks, as the funds raised are productive and oriented towards public welfare. Therefore, the application of Sharia principles in the era of banking digitalization not only contributes to increased public trust but also strengthens national financial stability through the ethical values and social responsibility inherent in the Islamic financial system.

RESEARCH METHODOLOGY

This research is a library research study aimed at analyzing the relationship between banking digitalization and the stability of the Indonesian financial system from a conventional and Islamic economic perspective. The research was conducted using secondary data obtained from various sources, such as official reports from Bank Indonesia (BI) and the Financial Services Authority (OJK), economics textbooks, scientific articles, and national and international journals relevant to the research topic.

Data collection techniques were conducted through literature searches and reviews from credible online and print sources. All information obtained was then classified based on the discussion topic. The collected data were analyzed using descriptive and comparative analysis, namely by comparing conventional and Islamic aspects, examining the opportunities and risks of banking digitalization on financial system stability, and identifying gaps in existing policies and regulations. Through this approach, the research is expected to provide a comprehensive understanding of how digital transformation affects the national financial system while also assessing the role of Islamic financial principles in strengthening its stability.

RESEARCH RESULT

The results of this study indicate that the development of banking digitalization in Indonesia has experienced very rapid growth in recent years. This digital transformation is evident in the increase in transactions via mobile banking, internet banking, and the use of digital payment systems such as QRIS and BI-FAST. According to Bank Indonesia data, the value of digital banking transactions continues to record double-digit annual growth, indicating a shift in consumer behavior toward cashless transactions and technology-based services. Furthermore, financial institutions are also beginning to adopt digital technology more broadly, both in customer service processes, risk management, and internal operations.

This development is not only occurring in conventional banks, but also in Islamic banks which are implementing digital innovations to increase efficiency and service reach to the public.

Another finding from the literature review is that digitalization offers significant opportunities for improving the stability of the national financial system. Digital innovation promotes transaction efficiency, expands access to financial services, and increases financial inclusion, especially in areas previously difficult to reach by conventional banking services. Through digitalization, the financial intermediation process becomes faster and more transparent, thereby strengthening the financial system's function in supporting the national economy. Furthermore, digitalization also helps financial institutions conduct real-time monitoring and reporting, which strengthens risk management systems and financial governance.

However, the study also revealed that behind these opportunities, there are various risks that could threaten the stability of the financial system. The most dominant risk is cyber risk, which includes potential attacks on data security systems, customer information leaks, and operational disruptions due to digital attacks. Another emerging risk is the technological gap between financial institutions, as not all banks have the same resources and infrastructure capabilities to face digital transformation. Furthermore, rapid changes in financial technology also pose a risk of regulatory lag, where policies and oversight sometimes lag behind the pace of innovations occurring in the field.

In the context of Islamic finance, the study shows that the application of sharia principles plays a crucial role in maintaining financial system stability in the digital era. Principles such as the prohibition of usury (riba), risk sharing, transparency (amanah), and justice ('adl) can serve as a moral and ethical foundation for managing digital financial activities. Furthermore, sharia instruments such as zakat, waqf, and sukuk (Islamic bonds) have significant potential to strengthen social and economic stability through a more equitable redistribution of wealth. Therefore, this study demonstrates that integrating digital innovation and Islamic financial principles can create a more resilient, inclusive, and sustainable financial system.

DISCUSSION

The development of banking digitalization in Indonesia demonstrates that the national financial system is moving towards a new, more efficient and modern era. Digitalization has brought about fundamental changes in transaction patterns and people's financial behavior. From a financial system stability perspective, digitalization can strengthen the economic foundation by increasing financial inclusion and efficient distribution of funds.

Wider access to digital financial services means more individuals and small businesses are integrated into the formal financial system. This indirectly increases liquidity, broadens the base of financial intermediation, and reduces the risk of financial exclusion, a long-standing cause of economic inequality.

However, digitalization also brings new challenges to national financial stability. Cyber risk is one of the most significant threats in the digital era, as attacks on the financial system can have a domino effect on public trust. In this regard, robust information technology (IT) security governance that meets international standards is required. The Financial Services Authority (OJK) and Bank Indonesia need to continuously update their cybersecurity policies and strengthen oversight mechanisms for digital banking activities. Furthermore, digital and financial literacy are needed to increase public awareness of the risks of digital fraud and exercise greater discretion in utilizing technology- based financial services.

From an Islamic finance perspective, the integration of sharia principles into banking digitalization provides significant added value to financial system stability. Islamic principles emphasize the balance between profit and risk, fairness in transactions, and the avoidance of speculative practices and usury. These values serve as ethical guidelines for addressing moral challenges amidst the rapid development of financial technology. Islamic finance also promotes social stability through a more equitable distribution of wealth, thereby reducing economic inequality. Furthermore, the development of sharia fintech can be a strategic alternative in providing innovative financial services that are also compliant with sharia principles.

Thus, this discussion confirms that banking digitalization has significant potential to strengthen the stability of Indonesia's financial system if balanced with sound risk management, adaptive regulations, and the implementation of Islamic financial values. The collaboration between technological innovation, regulatory policies, and Sharia principles will create a financial system that is not only efficient and inclusive, but also equitable and sustainable.

CONCLUSION

Based on the results of the study and discussion, it can be concluded that banking digitalization has become a crucial factor in strengthening Indonesia's financial system. Developments in financial technologies such as mobile banking, internet banking, QRIS, and BI-FAST have increased transaction efficiency, expanded financial inclusion, and accelerated the flow of information within the national financial system. This transformation demonstrates the significant potential of digital innovation to strengthen financial stability by increasing transparency, efficiency, and facilitating access to financial services.

However, on the other hand, the acceleration of digitalization also presents new challenges in the form of cyber risks, data breaches, infrastructure disparities among financial institutions, and regulatory delays in anticipating technological developments. These risks can threaten financial system stability if not accompanied by sound information technology governance, strict oversight, and human resource preparedness for digital change. Therefore, synergy between regulators, financial institutions, and the public is key to maintaining financial system resilience in the digital era.

From an Islamic financial perspective, the application of sharia principles provides added value in strengthening the stability of the financial system. The principles of justice, transparency, the prohibition of usury, and risk sharing serve as moral and ethical foundations that balance innovation with social responsibility. Furthermore, Islamic financial instruments such as zakat, waqf, and sukuk play a crucial role in creating social stability through equitable economic distribution. Thus, the integration of digital innovation and Islamic financial principles can create a financial system that is not only efficient and modern, but also fair, ethical, and sustainable for the national economy.

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