

## The Role of Banking Digitalization in Enhancing Competitiveness: A Conceptual Review

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### ABSTRACT

The development of technology is currently very rapid. Almost all aspects of life use technology. Likewise in the world of banking. The digital era has changed business patterns in the banking era. The convenience of the technology used is expected to be able to provide convenience and speed in transactions, known as banking digitization. Banking digitalization is a banking service by utilizing digital technology to meet customer needs in order to realize the digital economy as aspired to with the many new products issued by banks through technology that may facilitate customer transactions. This is expected to provide satisfaction to customers and become loyal so it is not easy to switch to another bank. This can also strengthen the bank's positioning and increase the bank's competitive advantage. This study is discussed with a qualitative descriptive research method.

## **INTRODUCTION**

### **Background**

In facing the development of the national economy that is always moving fast and competitive with increasingly complex challenges as a company that provides financial services to the wider community has a primary function as a development agent which is one of the supporting factors for the development of the business world.

Increasingly sophisticated digitalization brings a major revolution in the joints of human life, whatever the needs, all can be handled in one grip. With this digitalization, it makes it easier for people to do activities. In the world of banking, digitalization is very important for companies in providing services to their customers. Digitalization is not an option but a necessity and obligation, because customers expect speed, ease, flexibility, comfort and 7 x 24 hour service. For this reason, several Indonesian banks are campaigning and even investing in carrying out digital transformation. Digital transformation is considered a new way of doing business because of its potential to save costs. This transformation is also not only digitizing existing products, but changing mindsets, and solutions to be digital according to people's behavior and needs.

Banking digitalization is a long-term investment for a better life arrangement. Banking also expands its center by opening branches and offices in each region. To be able to do this, banking needs to carry out digital transformation.

With the advancement in the field of digital banking, customers can make transactions from anywhere and anytime quickly and easily as long as the data network service is to access Real Time 24 hours so that it can increase the volume of transactions that occur at one bank. Lately, the role of technology is not only a supporting factor but has grown rapidly into a determining aspect for the progress of the banking world. Banks that do not prioritize technology in their services tend to find it difficult to advance and develop. So technology can play a role as a competitive advantage for a bank.

This competitive advantage must be seen by customers as a customer advantage. If the bank provides faster service than its competitors in terms of transactions at the counter, then customers can feel this advantage. Banks must focus on forming customer advantages that can provide the highest value and satisfaction which leads to repeated use of services and ultimately gets a high increase in bank profitability as well.

With the issuance of Financial Services Authority regulation number 12/pjok/03/2018 concerning the implementation of digital banking services by commercial banks. Utilizing information technology, and is expected to provide services to customers without limitations of place and time and at the lowest possible cost that provides maximum convenience to customers according to customer preferences. In improving personal services to customers in the digital banking era can be realized in all transaction processes carried out by customers. From the explanation above will try to explain the role of banking digitalization in increasing competitiveness.

### **Problem formulation**

The formulation of the problem in this paper is:

1. What is meant by banking digitalization?
2. What is the role of banking digitalization in increasing competitiveness?
3. What should banks do in facing the digital era?

### **The objectives**

The objectives of this study are:

1. To explain what is meant by banking digitalization.
2. To explain the role of banking digitalization in increasing competitiveness.
3. To explain the things that must be done by banks in facing the digital era.

## **METHODOLOGY**

The research method used in discussing this scientific work is a descriptive method with qualitative techniques. The technique used in analyzing this research is the type of literature review. Literature review is a type of research conducted by collecting several literatures from several sources related to the discussion of the research and making it easier for readers to understand the application of literature study comprehensively.

## **LITERATUREVIEW AND DISCUSSION**

### **Information Digitalization and Banking Digitalization**

Information Digitalization is the process of converting various information, news, or news from analog format to digital format so that it is easier to produce, store, manage, and distribute. Digitalized information can be presented in the form of text, numbers, audio, visuals, which contain ideology, social, health and business. The equipment used is a Computer and Cell Phone. With the digitalization of information, various digital information is starting to be available in various sources so that people can more easily access it, such as in the form of opac, e-journals, e-books, e-marketing and so on.

Business digitalization is the process of moving business processes into digital technology. For example, the form of digitalization is a transaction business process carried out through a transaction application. Digital transformation involves more comprehensive changes where there is integration of digital technology into the company's business processes. Digital transformation changes business models, operational processes, and business culture to take advantage of digitalization. The application of digital transformation includes cloud-based tools to accommodate employees working remotely. (Oktavianty, et al, 2023)

Based on the Financial Services Authority or OJK regulation number 12/pjok/03/2018 concerning the implementation of digital banking services by commercial banks, it is explained that digital banking services are electronic banking services developed by optimizing the use of customer data in order to serve customers faster, easier according to needs, and can be done completely independently by the customer, by paying attention to the experience aspect. Banking digitalization is a banking service that allows its customers to carry out all their activities via smartphone, from opening an account to other transactions, for example internet banking, mobile banking, SMS banking, and phone banking.

### **Digital Banking Facilities**

Digital banking facilities consist of:

1. E-Loan

E-loan is a service used by credit staff, especially Financing Administration in the form of a system for providing new home ownership loans applied for by customers.

2. E-Coll

E-coll or Electronic Collection is a system used by collection unit employees to monitor their performance every day, the function of this system is as a means to view customer financing reports at the bank to later be billed to customers who have problems with their financing.

3. E-Commerce

In general, E-commerce (online trading) is an activity related to the sale, purchase and marketing of goods/services or the transmission of funds/data via electronic networks, especially the internet. (Marlina and Humairah, 2018)

### **Benefits of Digital Banking**

The benefits that can be felt with digital banking are as follows:

1. Increase Mobility

With digital banking, banking matters are no longer difficult, various features have been presented so that there is no more time wasted to go to the bank, our mobility and activities can be fully enjoyed.

2. Increase Opportunities

The shift from traditional shopping habits to online shopping is one of the reasons why digital banking is very helpful.

3. Easy and Practical

The main purpose of digital banking is to provide convenience and a pleasant experience for customers. With its various features, which only require installing a cellphone application, banking transactions can now be done practically. Don't forget that digital banking has also been prepared to be used by all ages by providing good, easy and fast banking services

4. Environmentally Friendly

In addition to providing convenience, innovation also strives to provide added value of course. The number of customers of a bank is balanced with the amount of paper used by various documents provided each time a transaction is made. (Marlina and Humarirah, 2018)

### **Technology to improve company competitiveness**

Companies often invest in new technology to gain an advantage over their competitors. Technological intelligence provides an overview of future technological changes, providing support for companies to identify, understand, and adopt changes for technological change. Technology has the main function, first, to provide an understanding of current and potential changes that occur in the business environment. Second, to provide important information for decision makers. The existing information is used to determine and manage company strategy. Third, to facilitate and assist the development of strategic thinking in the organization.

Technology is a potential source for achieving excellence. The presence of technology is a critical force in the competitive environment. Technology is a source of competitive strength. Technological advances will play an important role in achieving long-term capabilities. Technology is identified as a factor that contributes to the success of a company's operations. Technological innovation is a source of strength for a company in increasing market share, increasing profitability, creating new services. Technology is a source of competitive advantage for every business organization. The technology development stage model includes: technology acquisition, technology adaptation, technology utilization, and technology development. (Sedarmayanti, et al, 2020). The benefits of technology can be achieved in terms of: new market penetration, access to new complementary knowledge and talents, access to more economical resources, economies of scale and scope, increased capacity, faster market response, lower costs, and more innovative. (Dhewanto, et al, 2014).

### **Supporting factors for business strategies facing the digital era**

Various factors that support companies in implementing business strategies facing the digital era, including:

- a) Innovation: Innovation is the key to success in the digital era. Companies that are able to produce better, more efficient, and more innovative products and services will have a greater competitive advantage.
- b) Use of technology: Technology is an important element in business strategy in the digital era. Companies that are able to utilize technology to increase efficiency, improve customer experience, and create new products and services will have a greater competitive advantage.
- c) Customers: Customers are the main focus of business strategy in the digital era. Companies must understand customer wants and needs and improve customer experience to retain and attract more customers.
- d) Strong leadership: Strong and visionary leadership will play an important role in the success of business strategies in the digital era. Leadership that is able to understand market changes and adapt quickly will lead the company to success.
- e) Partnerships: Partnerships will help companies expand their reach, increase efficiency and create added value for customers. Companies must seek mutually beneficial partnerships with partners who share the same vision and mission.
- f) Flexibility. : Flexibility is the key to adapting to rapid market changes in the digital era. Companies must be able to adapt quickly and make decisions quickly and accurately in uncertain situations. (Oktaviany, et al 2023).

### **Advantages of Banking Digitalization**

By utilizing Information Technology, Banks are expected to be able to provide services to customers without limitations of place and time, and at the lowest possible cost that provides maximum convenience to customers according to customer preferences.

There are 6 advantages of digital banking, namely:

1. Business Efficiency

The digital platform not only improves the interaction between the Bank and customers, but also provides a method to make internal functions more efficient. With the existence of a digital platform, business matters related to banking can be resolved faster. No need to spend transportation costs, for example, to carry out transaction processes.

2. Cost savings

One of the keys for Banks to cut costs is an automated application that replaces excessive manual labor. Traditional bank processing is expensive, slow and prone to human error. Digital platforms can reduce costs through faster qualitative data synergy and faster response to market changes. As a result, transaction costs for financial matters become lower. So, savings can be diverted to other things such as saving and investing.

3. Increased Accuracy

Traditional banks generally rely on paper processing which statistically has the potential to have an error rate of up to 40%, which requires rework. By simplifying the verification process, it will be easier to implement Information Technology solutions with business software, which results in more accurate accounting. Financial accuracy is very important for Banks to comply with government regulations. This will also be beneficial because they can get faster and more transparent access to information.

4. Increased Understanding of Customer Needs

Digital solutions help manage marketing lists, allowing Banks to reach a wider market and build closer relationships with tech-savvy people. CRM platforms can track customer history and provide quick access to emails and other forms of online communication. This is effective for executing customer reward programs that can increase loyalty and satisfaction.

5. Higher Flexibility

The use of automated systems can speed up external and internal processes, both of which can increase customer satisfaction. After the financial market crash of 2008, increased emphasis was placed on risk management. Instead of Banks hiring and training risk management professionals, perhaps risk management software to detect and respond to market changes faster than even experienced professionals.

6. Enhanced Security

All businesses, large or small, face increasing cyber threats that can damage their reputation. Banks can benefit from an extra layer of security to protect their data. With the government's appeal to also socialize electronic money that minimizes the use of cash in various forms of transactions. (Setiawaty, 2021)

With the advancement of technology that has caused the change from analog information to digital information, people are more

With the advancement of technology that causes changes in analog information to digital information, people prefer to use digital information for the following reasons:

1. Easy to search, trace, access and use according to user needs.
2. Easy to produce, send, receive, filter, update based on user capabilities.
3. The writing format and content of the message sent are the same as the writing format and content of the message received.
4. Not hampered by long distances, language differences and time differences.
5. Sending and receiving messages is very fast and cheap.
6. Easy to store and process so that it does not require large storage space.
7. Easy to apply in various media because the content format of digital information will be the same, between one device and another (Marlina and Bimo, 2018, 18-19).

### **Success stories of successful business strategies in facing the digital era.**

Here are some examples of companies that implement business strategies in facing the digital era.

1. Tesla. Tesla is an electric car company that has succeeded in disrupting the traditional car industry. By focusing on adaptive innovation and better customer experience, Tesla has successfully introduced more efficient and environmentally friendly electric cars and introduced new technologies such as autopilot.
2. Netflix. Netflix is a streaming media company that has replaced the traditional business model of cable TV and DVD rental. Netflix focuses on innovation by developing better video streaming technology, as well as expanding their reach to offer original content and various customer options.
3. Amazon. Amazon is the world's largest online retail company, which has disrupted the traditional retail industry with their e-commerce business model. Amazon focuses on innovation by developing technology to optimize the delivery process and customer experience, and introducing new services such as Amazon Web Service.
4. Uber. Uber is a ride-sharing company that has changed the way people travel to major cities around the world. By utilizing technology to connect drivers with passengers. Uber has created a new market and provided a cheaper and more efficient alternative to traditional taxis.
5. Airbnb. Airbnb is a company that has disrupted the traditional accommodation industry with its platform and community-based business model. Airbnb allows people to rent their homes to travelers, introducing a new market, and more personal than traditional hotels.
6. Gojek. Gojek is the largest ride-sharing and multi-platform service company in Indonesia. By leveraging technology and a wide network, Gojek has disrupted the traditional transportation industry and created a new market in Indonesia. Gojek has also expanded its reach by offering various services such as food delivery, online shopping, and financial services.
7. Tokopedia. Tokopedia is the largest e-commerce company in Indonesia. With a marketplace business model and a focus on better customer experience. Tokopedia has disrupted the traditional retail industry in Indonesia. Tokopedia

also introduced new features such as Tokopedia 020 (online to offline) financial services and investment in local start-ups.

8. Traveloka. Traveloka is the largest online travel booking company in Indonesia. By leveraging technology and a focus on better customer experience. Traveloka has disrupted the traditional travel industry in Indonesia. Traveloka also introduced new services such as cinema ticket reservations, travel carrier services, and investment in local start-ups.

9. Ruangguru. Ruangguru is the largest e-tech company in Indonesia. With an online education business model, and a focus on better customer experience. Ruangguru has disrupted the traditional education industry in Indonesia. Ruangguru also introduced new services such as online tutoring services, curriculum development, and investment in local start-ups.

10. Dana. Dana is the largest fintech company in Indonesia with an online payment and financial services business model. Dana has disrupted the traditional financial industry in Indonesia. (Oktaviany, et al, 2023)

The companies above are examples of companies that have successfully implemented business strategies in the digital era. They have the ability to adapt to rapid market changes, leverage technology for innovation, focus on better customer experiences, and create new markets.

### **Things that banking companies must do to face the Digital Era**

Things that banking companies must do to face the Digital Era. Here are some businesses that can make companies face the digital era.

1. Monitor trends and innovations. Continue to monitor trends and innovations in the banking industry and develop strategies to deal with changes that occur. Banks must pay attention to new innovations and technological advances that can change the market or create new markets.

2. Be innovative. Banks must strengthen an innovative culture and foster creativity throughout the banking organization. Banks must find ways to develop better and more efficient products and services and continue to update and improve their portfolios.

3. Be adaptive. Banks must have Flexibility and the ability to adapt to rapid market changes. Banks must be able to adjust their strategies and update their business plans to address unexpected situations.

4. Focus on customer experience. Banks must focus on customer experience and offer better and more efficient services. In the digital era, banks must understand the needs and desires of their customers and fulfill them.

5. Establish partnerships. Establish mutually beneficial partnerships. Partnerships can help banks strengthen their market position, expand their reach and introduce new technologies.

6. Implementing better digitalization and information technology to improve operational efficiency and create better customer experiences. Banking understanding must leverage technology to accelerate innovation, develop new markets and improve their competitiveness.

These strategies can help the banking world to better face the digital era, by adjusting their strategies to their specific conditions and needs in the market.

### **Policy Recommendations**

Regarding the direction of banking policy in terms of technology development that will trigger the industrial revolution to be more digitalized processes to customer processes. in order to encourage innovation in the financial services industry in facing and utilizing the industrial revolution 4.0, among others by:

1. Preparing an adequate ecosystem and encouraging financial services institutions to digitize products and services with adequate risk management.
2. Facilitating and monitoring the development of fintech startups, through a regulatory framework that is conducive to encouraging innovation and providing protection to consumers.
3. Utilizing information technology in business processes to improve the competitiveness and resilience of financial services institutions.
4. Encourage the strengthening of banking structures by increasing the scale of economies and competitiveness and banking efficiency through the intensity of the use of information technology so that it can increase competitiveness.
5. Encourage the use of sharing platforms to increase penetration and efficiency of the banking industry.
6. In the banking infrastructure development program in realizing complete infrastructure to support the creation of a healthy banking industry.
7. With the role of information technology, it can increase the protection of banking service customers by compiling a digital customer complaint mechanism, in real time.
8. Can improve bank supervision, supervision can be carried out effectively by Bank Indonesia, with good supervision it can create a strong banking industry that has high competitiveness and is resilient in facing risks.
9. Can improve the regulatory system in a more effective form and can increase higher banking standards.
10. Increase banking strengthening in increasing its business scale to support increasing the capacity of banking credit growth.
11. Facilitate the implementation of financial service literacy that is broader and faster (real time) and cheaper.
12. The application of digitalization in services, regulatory products and supervision is expected to make the national banking industry more resilient, competitive at the international level and contribute more to the national economy and improve people's welfare.

Business developments and information technology developments have triggered the banking industry to adapt to very rapid technological developments. The rapid development of information and communication technology and changes in people's lifestyles must be immediately anticipated by the financial services sector including the national banking industry.

## **CONCLUSION**

The development of technology today is very rapid. Almost all aspects of life use technology. Likewise in the world of banking. The digital era has changed business patterns in the banking era. The ease of technology used is expected to be able to provide

The discussion is conducted by describing the digitalization of information and banking, digital banking facilities, the benefits of digital banking, technology to improve company competitiveness, the advantages of banking digitalization, success stories of business strategies in implementing digitalization, things that must be done by a company in facing the digital era, and policy recommendations. With this discussion, it is explained how the role of banking digitalization is applied in managing bank businesses and bank management, so that competitive advantages are obtained to strengthen competitiveness. Hopefully this scientific work can be useful for the development of a more competitive bank business in the future.

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