PROFILE OF DISRUPTION IN THE LANDSCAPE OF THE INDONESIAN BANKING INDUSTRY

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Abstract

Disruptions that occur in the business world can penetrate into any business sector and industry, including banking, which is known as an industry that has strict regulations and is not easy for newcomers to enter. This study aims to understand the process of disruption in the banking sector, construct the phenomenon of disruption that occurs, find potential opportunities and risks of threats faced by incumbents in the Indonesian banking industry, and answer the question whether incumbents should be worried about the disruption that occurs. The main data collection technique used is in-depth observation of the phenomenon of disruption that occurs by conducting direct and indirect interviews, group discussion forums (FGD) and documentation studies or even a combination of the three (triangulation). Industrial business landscape analysis techniques use the 4C-Diamonds analysis tool and Industrial Business Model Environmental Analysis with a Business Model Generation approach. The results of the research conducted show that the era of disruption in the Indonesian banking industry sector has been clearly visible since 2016, which was triggered by advances in information technology, especially the internet, high-speed microprocessors, smart devices and the rapid development of fintech. The emergence of the Covid-19 pandemic forced banks to accelerate the adoption of technology and digitization in their financial transaction services and other banking services, to match the changing preferences of customers who prefer to do activities through digital channels. Fintech developments and shifts in customer preferences have also been a trigger for the presence of new players or new entrants, including: fintech companies, technology giants, digital banks and neobanks. Incumbents don't have to worry about any disruptions that may occur, if only they are able to meet the requirements for sustainable growth and are able to adapt to -or even create-environmental scenarios for future business models to come.

Keywords: Disruption, incumbent, new entrants, fintech, 4C-Diamond, Business Model Generation

A. PRELIMINARY

The disruption phenomenon introduced by Christensen (1997) started with a research question: Why did great companies fail? The phenomenon of great companies refers more to good companies or institutions, including public and non-profit services which are believed to be superior, and even believed to never die because of their perfection and strength. Those good, well-established companies that later fall due to disruption are called incumbents, while these newcomers come with completely new platforms, called new entrants. They may have no past experience at all, while incumbents are trapped by their past. The incumbent is not not innovating at all. They've really innovated. But the innovation is in ordinary things, which we have known for a long time, in the form of old ways that are more in the nature of improving and improving products, packaging, advertising or promotion, location, brand image, service and so on. However, newcomers carry out disruptive innovation by changing business and technology platforms (Kasali, 2017).

Incumbents, supported by strong management and good branding, used to be able to enjoy large margins and target the premium market segment. Meanwhile, the new entrants partially disrupted and created a low-end market with a low price advantage. As a result of most of its market share moving to these new markets, the power of the incumbent has eroded. The market has the potential to disappear because consumers change their behavior by wanting something new, which is more efficient (simpler, cheaper, more affordable/easily accessible, and faster). All businesses and non-industrial sectors are expected to be affected by the disruption. Even with different scales and impacts, the effects on companies vary. Some are very quickly affected with devastating effects and some are very gentle. Some are tired, some are strong and cannot be overcome (Kasali, 2017).

Disruptions that occur in the business world can penetrate any business sector and industry, including banking. The presence of new entrants in various forms, such as crowd funding, P2P lending, digital payments, digi-wallets, etc. is part of the storm of disruption that must be faced by the incumbent. POJK itself has required Banks to implement Risk Management effectively, both for individual Banks and for Banks in consolidation with Subsidiaries, where Strategic Risk is one of the risks referred to. Strategic Risk is Risk due to inaccuracy in making and/or implementing a strategic decision and failure to anticipate changes in the business environment. Strategic risk arises, among others, because the Bank establishes a strategy that is not in line with the Bank's vision and mission, conducts an analysis of the strategic environment that is not comprehensive, and/or there is a strategic plan mismatch between strategic levels. In addition, Strategic Risk also arises due to failure to anticipate changes in the business environment including failure to anticipate changes in technology, changes in macroeconomic conditions, dynamics of competition in the market, and changes in policies of the relevant authorities. (OJK, 2016)

This research is intended to obtain an overview of how the actual disruption profile that has disrupted the banking industry in Indonesia at this time? and what are the opportunities and threats of the incumbent in the era of disruption?

B. RESEARCH METHODS

Research Design

The research method used in this research is a qualitative research method with a descriptive approach. The qualitative method is based on a positivistic philosophy, and is artistic/more artistic in nature (does not use strict steps); used for discovery

(exploration to find hypotheses); and the data collected is mainly qualitative data (Sugiyono, 2020:2). Qualitative research is research that analyzes and interprets texts and interview results with the aim of finding the meaning of a phenomenon. If quantitative research is used to test hypotheses, then qualitative research is used to find hypotheses. Qualitative research deals with non-numeric data, collecting and analyzing data that is narrative in nature. Qualitative research methods are mainly used to obtain rich data, in-depth information about the issue or problem to be solved. The research method uses focus groups, in-depth interviews, and observers participate in collecting data (Sugiyono, 2020: 3). Qualitative research method is a research method based on postpositivism or enterpretive philosophy, used to research on natural object conditions, where the researcher is the key instrument, data collection techniques are carried out in a triangulation manner (combined observation, interviews, documentation), the data obtained tends to be data qualitative, data analysis is inductive/qualitative in nature, and the results of qualitative research are to understand meaning, understand uniqueness, construct phenomena, and find hypotheses. The issues or problems that will be explored here are the phenomenon of disruption in the Indonesian banking industry as well as the opportunities and threats for incumbents.

Research Sites and Times

In this research, the research location is BNI as a state-owned commercial bank domiciled in Indonesia as the research object of this case study. The research time is not limited but has been carried out more or less since the period 2018 to. 2022. Even though it is not carried out simultaneously, the data used is strived to be the most updated data, in accordance with the latest conditions and still relevant to current conditions.

Presence of Researchers

The researcher himself is a BNI employee and is part of one of the managerial structures in BNI so that they can observe and follow directly the changes in strategy and business plans that occur and their implementation within the company.

Data Source

To support the completeness of the discussion in writing this thesis, the authors obtained data sourced from primary data and secondary data. Primary data is data obtained directly from the company in the form of direct observation within the company and acquisition of company documents as well as direct interviews with the level of company leadership and employees in other corporate environments either in the form of discussions, discussion forums, seminars, webinars, business meetings and the like , which is still relevant to the object of research in this thesis. Secondary data is data that is not obtained directly but obtained from documents such as text books, published books, published journals, articles in various media such as magazines, newspapers, internet sites, previous research and various research institute reports and data that are still relevant. with research topics.

Method of Collecting Data

The data collection techniques used in this study are library research techniques and triangulation techniques. Library research techniques are used by digging and examining various literature and other reading sources that are relevant to the problem to support scientific research. While the triangulation technique is combining various data collection techniques in a study of a problem (interviews, group discussion forums and documentation studies).

Data Analysis

Data analysis techniques are done more in conjunction with data collection. Qualitative data analysis is the process of selecting, sorting and organizing data collected from field records, observations, in-depth interviews and documentation, so that a deep, meaningful, unique understanding and new findings are descriptive, categorization and or patterns of relationships between categories From the object under study (Sugiyono, 2020: 165). To understand, dissect the phenomenon of disruption and construct the disruption profile that occurs in the banking industry, researchers conduct business landscape analysis using the 4C diamond method which is still the best and relevant method to dissect outlook business landscapes of a business of an industry. This analysis model will be sharpened with an environmental business model analysis tool with the Business Model Generation approach by making a mapping of four main fields of key external forces that affect business models in the industry.

C. RESULTS

Based on the results of the bank business landscape analysis using the 4C-Diamonds method, the results of research were obtained:

1) Agent of Change or the main change force in the business landscape.

- Technology is influenced by: Progress and discovery of internet and digital technology, smart devices, digital platforms, marketplaces, fintech (financial technology), digital currencies (crypto currency), blockchain, robotic technology and artificial intelligence, metaverse.

- Socio-Culture is influenced by: Digital intelligence demands in society, smartphone as lifestyle, social media and mobile internet, demographics dominated by millennial generation Digital Savvy, Indonesia as largest internet used.

- Politic-Legal is influenced by: Regulator Policy: Financial Services Authority (OJK), Bank Indonesia (Central Bank), Deposit Insurance Corporation (LPS) and also Commodity Futures Trading Supervisory Agency (BAPPEBTI), Clusterization and Positioning of SOEs, especially SOEs, especially BUMN Banking by the Ministry of SOEs.

- Market is influenced by: Increasingly widespread players entering the banking industry market which was previously only contested by traditional banks that classically have business models and products and technologies that are similar or the same; The presence of internet and smartphone technology has changed the competition market in the banking industry with the presence of fintech companies, technology giant companies or Big Apps such as Amazon, Apple, Google and Facebook, digital banks and also neobank, even players from marketplaces such as Sea Group, and startups like Bukalapak and Gojek; The presence of new players in the banking industry market was triggered by changes in customer preferences which are increasingly dominated by millennial generation who are accustomed to the ease and comfort of transactions through their gadgets; Indonesia is the fastest country in Asia that adopts digital adoption, faster than Brazil and China with a high level of loyalty to banking services.

- Economy is influenced by: Global economic growth is still experiencing a slowdown due to the continued impact of Pandemic Covid-19 and the geopolitical conflict that occurs; Indonesia's economic growth during 2022

still increased with a range of 4.8% - 5.7%. Both large and global large institutions estimate that Indonesia's growth will grow optimistically around 5%; Banking expansion has grown double digit mainly KMK and KI, and Consumer itself is still growing.; The turmoil and uncertainty of the global economy, a high persistent global inflation and concerns about global recession is a separate risk that must be anticipated.

2) Customers or customer conditions in business landscapes.

The internet and social media change the patterns of people's lives to become more horizontal, inclusive and increasingly dynamic social life; For Indonesian consumers the results of the FICO Survey (2021) as shown in Figure 1 revealed the following things:

- 54% of Indonesian consumers prefer to use digital channels to interact with banks when experiencing financial difficulties.
- 23% of Indonesians prefer to communicate via their mobile banking application; meanwhile, 14% of people use banking services by telephone (phonebanking), 8% of people communicate via email; 7% of people prefer internet banking services, and 3% of people want to use virtual conferencing technology.
- 35% of Indonesians prefer to deal with only one main bank, whereas, according to 39% of people, they "fairly agree" with this trend.
- 41% of Indonesians are relatively open to the option of trying competing fintech services or banks, and 28% say they are reluctant to consider competing services.

The Covid-19 pandemic has made visits to bank branch offices less attractive. This trend is accelerating the shift towards digital banking channels around the world. The ability to provide and manage various channels according to customer preferences, as well as provide comfortable and attractive interactions, plays a major role in the success of digital banking. Banking actors need to invest in customer relationship management and communication tools that can cut across these channels and product boundaries. Thus, this suite of tools enables personalization and better decision-making.

Banks still command an edge in data and customer relationships over their competitors providing financial technology (fintech) services. This is because managing more than one bank account or financial products from different institutions often feels difficult, time-consuming, and expensive for bank customers in general. Today's digital banking users want greater control and visibility of their financial position. This survey defines both of these as features for viewing transaction history, updating personal information, resetting passwords, and several other features. More interestingly, personalization and control are the top two reasons for customers in Asia Pacific to switch to another bank (31%). Other main reasons for customers in Asia Pacific to switch to other banks; features for controlling payment cards (setting transaction limits, locking/unlocking); features to make recurring payments; and better security features, such as biometry and two-factor authentication.

3) Competition or competitive conditions in the business landscape:

Based on the previous examination of the business landscape of the banking industry, it can be concluded that the main dominant force of change begins with the presence and development of internet technology, supported by developments in the

invention of increasing microprocessor speed, to the refinement of increasingly sophisticated smartphones with greater capacities. Infocomm and internet technology that has entered its third wave, with social and commercial media entering its zenith and with the support of smart devices, opens up many opportunities for new ideas and ways that create highly disruptive business models with the advantages of affordability, ease of access , simpler and more social. This is what invites many new players (new entrants) into the competitive landscape in the banking industry.

The results of the competition mapping analysis in the Indonesian banking landscape, identified several classifications of players, namely: Traditional (incumbent) banks consisting of state-owned and non-state-owned banks, fintech companies, technology giants or tech titans, digital banks, and neobanks as illustrated in Table 1 Map Indonesian Banking Industry Competition.

4) Company or the condition of the incumbent company in the business landscape.

Incumbent companies respond to the disruption phenomenon that occurs in many different ways and strategies, including by cooperating with or collaborating with fintech companies, forming their own digital banks, increasing the capabilities of their mobile banking applications. The chosen strategy is adapted to the company's internal conditions by considering its strengths and weaknesses. The condition of the company as a value decider in the context of 4C-Diamond is not examined further because the objects of research have become too many and widespread, and one must examine the existing internal conditions of the bank one by one.

While the results of the analysis using the Industrial Business Model Environmental Analysis with the Business Model Generation approach, namely by mapping the four main areas of key external forces in the industrial landscape that influence the banking business model are as follows:

1) Market Forces (Market Analysis) by identifying market issues, market segments, needs and demands, switching costs and revenue attractiveness, the following conditions are found:
- A shift in customer preference for conducting banking transactions through digital channels.
- The customer segment in the coming years will be dominated by digital savvy millennials. Indonesia is the fastest country in Asia to adopt digital.
- Fintech offers increase customer expectations to receive services that are much easier, cheaper, faster, safer and more convenient (privacy).
- Better personalization and control in digital banking services are the most important reasons that make customers switch to other banks besides features to control payment cards, routine payments, and better security features.

2) Industry Strength (Competition Analysis) by identifying competitors (actors), new players (disruptors), products and services, substitutes, suppliers and actors, other value chains and stakeholders, the following conditions are found:
- Escalation of competition in the banking landscape has greatly increased with many non-bank players entering the industry.
- The highest threats come from Big App (Tech Titan) and Neobank. The ability to master digital technology and the speed of increasing high service features is not easy to imitate and match. See Table 2.

- Another threat is fintech companies, which, although still small and have just entered the low-end market, are slowly growing even bigger.
- Development of digital capabilities requires serious investment in technology development both internally and by establishing partnerships with investors and or companies that are strong in terms of the technology (tech partners).
- Incumbent banks such as state-owned banks with dominant share ownership controlled by the government have an advantage in terms of the government and regulator's alignment with state-owned banks which act as development agents and also to safeguard national economic interests.

3) Key Trends (Forward Looking) By identifying technology trends, regulation trends, society and culture trends, socio-economic trends, the following conditions were found:
- The trend of digitizing financial transactions and banking processes is increasing. Fintech technology has a great opportunity to disrupt the banking landscape. On the other hand, the potential increase in cybercrime is a risk that must be anticipated early on.
- Fintech regulation and the evolution of digital banking can be a threat but also an opportunity for banks. The clustering of BUMN Banks and the distribution of specializations, as well as the direction and support of the Ministry of BUMN so that each BUMN Bank has a different positioning is a distinct advantage.
- Changes in consumer behavior triggered by the Covid-19 Pandemic where digital interaction in many activities increases (social, economic, political etc.). People are now more familiar with the term netizen and it won't be long before they come to a new digital universe known as the Metaverse.
- The main demographic in Indonesia is currently around 60% filled by Generation Y or Millennial Generation who are digital and tech savvy.
- The MSME and consumer segments are the main targets targeted by fintech companies and other new entrants because the market is still very large and continues to grow.

4) Macroeconomic Strength (Macroeconomic Analysis) by identifying global market conditions, capital markets, commodities and other resources, economic infrastructure, the following conditions are found:
- Global economic growth is still experiencing a slowdown due to the continued impact of the Covid-19 pandemic and the geopolitical conflict that has occurred. Global economic turmoil and uncertainty, persistently high global inflation and fears of a global recession are risks that must be anticipated.
- The main source of funding for incumbent banking in general is still from CASA apart from that by issuing stocks, bonds, MTN etc.
- To carry out a competitive strategy in the current Disruptive and hypercompetitive Era, recruiting the best talent, especially those with technology and digital capabilities, is not easy and must compete with fintech and technology companies that offer more benefits and flexibility.
- Indonesia's economic growth in 2022 will still increase in the range of 4.8% - 5.7%. Both major national and global institutions estimate that Indonesia's growth will grow optimistically by an average of around 5%. Banking expansion has grown by double digits especially for KMK and KI, and the consumer segment itself is still growing.

D. DISCUSSION

Profile of Disruption in the Indonesian Banking Industry

The banking industry in Indonesia is in the Era of Disruption where in a fast period of time since 2016 until the time this journal was written it is still experiencing disruption with very fast and dynamic changes. Disruption in the Indonesian banking industry was initially triggered by advances in information technology with the presence of the internet, high-speed microprocessors, smart devices, and rapidly developing financial technology. Disruption increased during the Covid-19 Pandemic, where customers began to shift their preferences to carry out various activities (political, economic, social, etc.) including financial transactions through digital channels (social media, marketplaces, platforms, etc.). Developments in financial technology have triggered the presence of new entrants in the banking world with the emergence of fintech companies working on payment, e-wallet, peer-to-peer lending, crowdfunding and so on. Traditional banks responded to this condition in various ways, among others. partnering with fintech companies to create their own digital bank. This shift in customer preferences has invited many other new players in the banking industry, including giant technology companies or so-called tech titans and neobanks. Because the banking industry is a highly regulated industry, BI and OJK, which are banking regulators in Indonesia, also issue several regulations related to fintech, digital transactions and digital banks. BI and OJK in Indonesia also support and encourage digital transformation in the banking world. More clearly seen in Figure 2.

Opportunities and Threats of Disruption to the Incumbent

The following are the opportunities and threats that arise from the disruption phenomenon in the Indonesian banking industry:

1) Opportunities
   - Issuance of banking clusters and SOE Ministry directives for a different positioning from state-owned banks reduces the level of competition from fellow state-owned banks.
   - Business opportunities in economic sectors that are not affected by Covid-19.
   - Various economic stimulus from the government and regulatory policies that support banking
   - The market base is getting bigger, with the digitalization of transaction services and fintech, people with low financial literacy who previously had difficulty accessing banking are easier to reach and better served.
   - The trend of digitizing banking transactions and processes makes banks more efficient.
   - The industrial revolution 5.0 opened up new ways, services and new business models that were able to create new sources of income for banks and at the same time increase the efficiency of business processes.

2) Threats
   - The increasing trend of competition with fintech & the emergence of new competitors from the non-bank industry.
   - Changes in customer preferences and expectations of bank services.
   - Regulations on fintech, digital banks, etc. which can be detrimental to incumbents and favor new entrants thereby increasing competition
   - Changes in the environment and work processes
   - Potential increase in cybercrime

- The world economic slowdown due to the continued impact of Covid and the global political situation
- Fears of a world recession

E. CONCLUSIONS AND RECOMMENDATIONS

Disruption will always be there. The main changes that trigger disruption usually come from increasing technological advances. Every time the company must be ready to face it. The strategy needed is to always disrupt yourself and challenge the future of the industry by always aligning the company's business model with existing changes and trends. Incumbents should always be able to maximize existing strengths and opportunities, overcome any threats that arise and improve weaknesses, in order to continue to have an advantage in the industry in a sustainable manner. In the context of the banking industry, there are at least four things that are a minimum requirement for sustainable growth, namely: having new sources of growth, sufficient capital reflected in the adequacy of the CAR ratio (capital adequate ratio), sufficient liquidity to grow is reflected in the ratio of LDR (Loan Deposit Ratio), and quality growth with adequate reserves resulting from optimal profitability.

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Table 1 Table of Indonesian Banking Industry Competition Map

Identified Competitor	Main Factors of Competition	Competition Scale
State-owned Banks	Loan interest; fund interest; efficient technology, service excellent; convenient branch.	Decreased as a result of directives from the Ministry of SOEs regarding the focus & positioning of each bank.
Traditional Banks	Loan interest; fund interest; efficient technology, service excellent; convenient branch, technology adoption.	Tend to be moderate and stable, both are trying to adopt the latest technology.
Fintech	Ease and comfort in transactions, on a small scale.	Slightly disturbing and undermining the banking market share partially.
Tech Giant (Tech Titans)	Has a very large and loyal customer base on the platform. Their products have become part of people's habits and lifestyle. Almost all community interactions and transactions occur on their platform.	It has the potential to threaten the existence and banking market in the future.
Digital Banks (Digi-Bank)	All-in-one banking services in the grip of a mobile phone. The ease and convenience of transacting on gadgets.	Increase escalation of competition, but can still be followed / copied by traditional banks.
Neobank	It operates very efficiently because it is a digital bank that does not have any physical branches. It is possible to provide high deposit rates and reduce or even eliminate all forms of transaction costs. Because it is a technology company, neobank is able to quickly collect, process and analyze customer data to be able to provide fast and highly personalized customer service. Able to bring up advanced features quickly.	It has the potential to threaten the existence and banking market in the future. Although currently the features are not as complete as commercial bank services, with time, Neobank will be able to compete with traditional bank services.

Source: Research results..

Table 4.2.5 Profile of Competitors in the Indonesian Banking Landscape

Competitor	New Business Value	Target low-end market	Target new market	Agility
State-owned Banks	✕	✕	✕	✕
Other Traditional Banks	✕	✕	✕	✕
Fintech Companies	✓	✓	✕	✓
Tech Giants	✓	✓	✕*	✓
Digital Banks	✓	✕	✕	✓
Neobank	✓	✓	✕*	✓

Source: Processed from various research data
* = has the capability to penetrate new market targets quickly
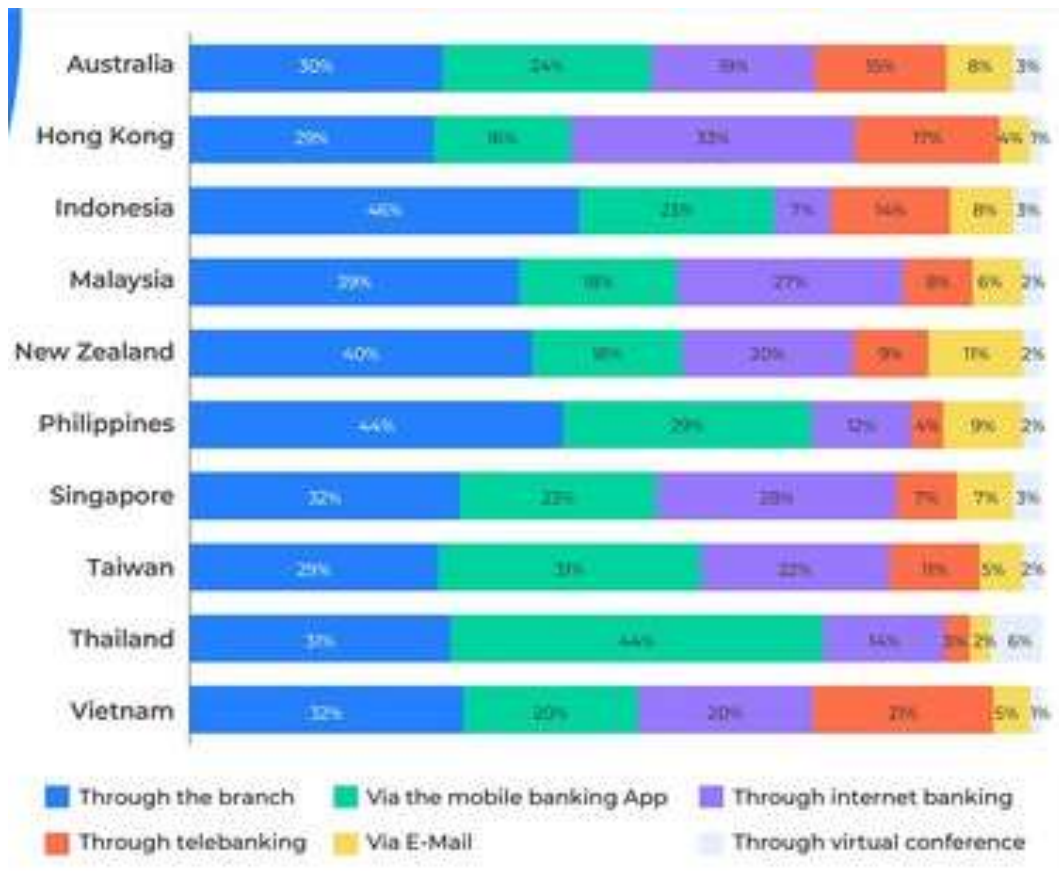
Figure 1 Asia Pacific Bank Customer Preferences December 2020

Source : (FICO, 2021)

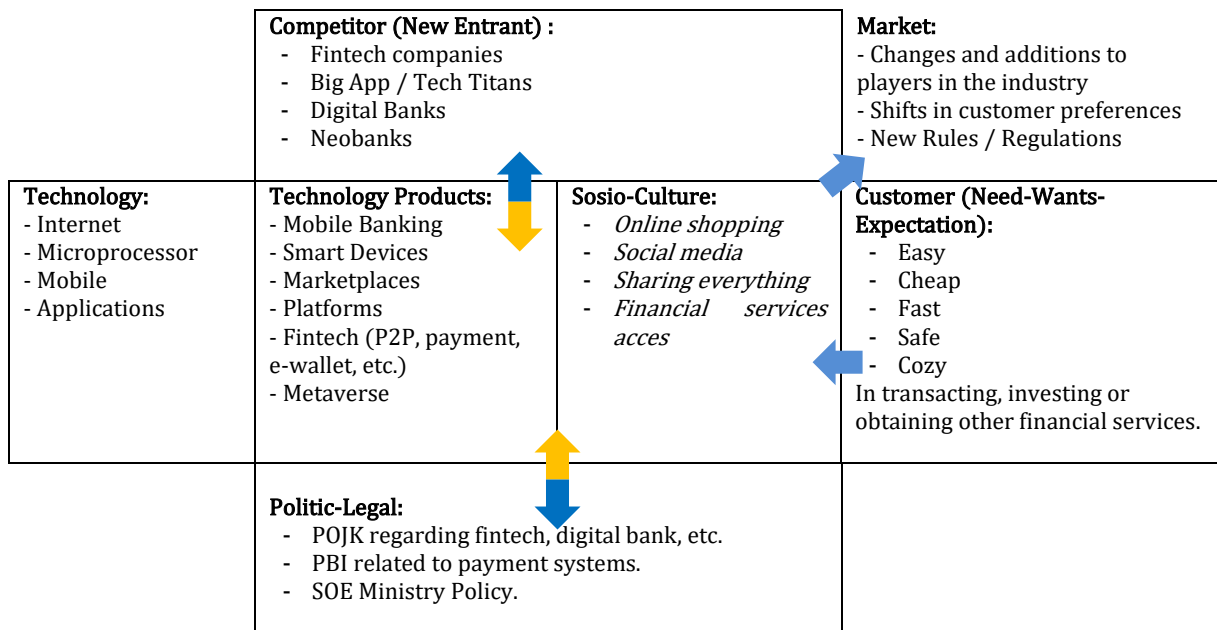| Competitor (New Entrant) : - Fintech companies - Big App / Tech Titans - Digital Banks - Neobanks			Market: - Changes and additions to players in the industry - Shifts in customer preferences - New Rules / Regulations
Technology: - Internet - Microprocessor - Mobile - Applications	**Technology Products:** - Mobile Banking - Smart Devices - Marketplaces - Platforms - Fintech (P2P, payment, e-wallet, etc.) - Metaverse	**Sosio-Culture:** - *Online shopping* - *Social media* - *Sharing everything* - *Financial services acces*	**Customer (Need-Wants-Expectation):** - Easy - Cheap - Fast - Safe - Cozy In transacting, investing or obtaining other financial services.
	Politic-Legal: - POJK regarding fintech, digital bank, etc. - PBI related to payment systems. - SOE Ministry Policy.		

Figure 2 Profile of Banking Disruption in Indonesia

Source: Research results.