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Synergy Of Sharia Banks And Financial Technology In The Development Of Micro, Small And Medium Businesses In Indonesia

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ABSTRACT

The purpose of this study is to analyze the synergy between Sharia Bank and Fintech to effort and develop micro, small and medium enterprises (MSMEs) in Indonesia. Data and information were obtained through interview to expert respondents in their fields such as BNI Syariah, Ammana Fintek Syariah and the Otoritas Jasa Keuangan (OJK). This study has been conducted from July 2018 to March 2019. To provide a deep understanding, this study uses a qualitative approach. The results of the study to show that the opportunity to create synergy between Sharia Bank and Sharia Fintech in order to develop MSMEs in Indonesia is still very wide open. This synergy can be done through several existing patterns or synergy models, including through cross-selling schemes, channeling, references, shadow investors, outsourcing platform and Fintech consortium. The benefits of this synergy include empowering MSMEs, facilitating financial services that are practical, comfortable, safe, have speed, sophistication and up-to-date and are more efficient. The challenges ahead are in terms of human resources competence and support from regulators for policy relaxation. Risks that must be properly mitigated from these synergies, such as the risk of credibility, technology, default and operations.

KEYWORDS: Financial Technology (Fintech); Micro; Small and Medium Enterprises; Sharia Bank, Synergy.

INTRODUCTION

Along with the changing times which are dominated by Influence of the developments in technology and the use of internet services, operational activities in the banking industry in Indonesia are also experiencing developments in the technology side. The growth of the number of internet users in Indonesia during the past year experienced quite rapid growth, from 132,70 million people in 2016 to 143,26 million people in 2017 or experiencing a growth of 7,96%. The use of internet access by the Indonesian people for banking services reached 7,39%, while the use of the internet for banking transactions amounted to 17,04% (Asosiasi Penyelenggara Jasa Internet Indonesia, 2017). In the development of technology in the banking world, financial technology (Fintech) is a technology that still dominates until now. At this time, the term financial technology (Fintech) is already familiar to the people of Indonesia. Through Otoritas Jasa Keuangan Regulations (POJK) No. 77/POJK.01/2016 concerning Information Technology Based Lending and Borrowing Services (LPMUBTI), OJK uses the this term by referring to Fintech as the provider of financial services to bring together lenders with loan recipients in the framework of entering into loan agreements in Rupiah directly through the electronic system using the internet network.

The banking world has the opportunity to develop in a more positive direction through collaboration or synergy with the development of Fintech, especially with Fintech which operates and focuses on providing loan services, financing and capital provision. Synergy as a combination or fusion of elements or parts that can produce better and greater output than is done individually, besides that as a combination of several elements that will produce a product with superiority (Covey, 2015). Synergy in development means the integration of various elements of development that can produce better and greater outputs. Therefore, it is hoped that Sharia Banking and Fintech can work together in order to achieve the development of SMEs in a more effective and productive direction. The market potential that is still very wide open that can be served by the synergy between Banking and Fintech is a society that has not been accessed by banking services (unbankable). As for the people unbankable who need capital access, the majority are micro, small and medium enterprises (MSMEs). Though the MSMEs sector has an important role in the economy of the community, namely in supporting the economy of the small people and providing a direct impact on the lives of people in the lower sector. The existence of MSMEs needs to be developed because this development will importantly effect on improving the economic community to achieve well-being (Anggraeni *et al.*, 2013). In addition, Supriyanto (2006) states that the progress of MSMEs will have a significant impact on improving the welfare of the people involved in it, so that the number of poor people will decrease.

From the data of Kementerian Koperasi dan Usaha Kecil dan Menengah Republik Indonesia (Kementerian Koperasi dan UKM RI) from 2012 to 2017 it was found that MSMEs absorbed workforce of 101.722.458 people in 2012 and in 2017 increased to 116.673.416 people or accounted for employment of 97,02% of the total national workforce. The development of the number of MSMEs business units, in the amount of 55.206.444 units in 2012 to become 7.716.172 units in 2017 or experienced growth of 13,98%. MSMEs is the dominant business unit in Indonesia with a total of 99,99% of the total business units. The growth of MSMEs in a positive direction indicates that MSMEs can contribute more to Indonesia's economic development. MSMEs has a big role in national economic development, economic growth and opening new jobs (Fauzan, 2019). MSMEs provide the best solutions to stabilize the economy and greatly contribute to

economic development in Indonesia (Putra, 2015). The development of MSMEs is believed to strengthen the national economy, with some consideration that MSMEs are generally based on local economic resources and do not depend on imports (Setyawati, 2009).

In accordance with the mandate of the law, the Government is obliged to make efforts to develop sources of financing by providing strengthened capital facilities, one of which is the distribution of financing to MSMEs by financial institutions, such as Sharia Banking and Fintech. Through Fintech, access to capital through the distribution of funding for the development of MSMEs can be done appropriately and effectively. The presence of technology has made financial services cheaper, faster and easier so that for SMEs, Fintech can be a solution for the development of MSMEs businesses in the future (Rizal *et al.*, 2018). With the implementation of Fintech, it will make savings and loan activities in MSMEs faster, easier and more efficient (Dalimunthe, 2019). For this reason, the Government through Bank Indonesia (BI) and Otoritas Jasa Keuangan (OJK) require each Commercial Bank to channel its financing to MSMEs. This was done to stimulate synergy between banks and MSMEs in order to build stronger economic growth. BI issues regulations that must be implemented by every Commercial Bank in Indonesia including Sharia Banks, namely the achievement of a certain ratio of financing to MSMEs that is done in stages, as shown in the following **Table 1**.

According to the Director of the Departemen Pengembangan UMKM BI, it is known that until the end of 2017 the number of banks that have met the MSMEs credit/financing ratio is 72 banks. Meanwhile, 47 other banks have not reached the minimum ratio of lending/financing to the specified MSMEs, which is lowest of 15% from the total lending/financing in 2017. There is a gap between the achievement of banks with the targets or regulations for MSMEs financing distribution that have been set by BI and there is an opportunity from the use of Fintech which focuses on channeling financing to MSMEs, then Sharia Banks can work together with Fintech to be able to develop MSMEs in Indonesia.

Wibowo (2017) revealed that Fintech can synergize with the existing financial industry to provide multiple benefits to the community. Furthermore, Prawirasasra (2018) also revealed that to optimize the role of financial technology, it is necessary to collaborate between financial institutions and Fintech business people in terms of information channels by utilizing available data to strengthen the distribution channels that have been built. Digital technology innovation in the sharia finance industry also developed through the presence of Sharia Fintech which has the concept of providing financing for entrepreneurs to build their businesses and Fintech companies are here to contribute to the development of MSMEs (Muzdalifa *et al.*, 2018). Asaba, *et al.* (2016) found that lending platforms peer to peer lending (P2P lending) creates an important role and becomes a solution and for Fintech has gained MSMEs market appeal that requires financing, especially because it is flexible about collateral, simplicity and speed of the financing process, competitive interest rates and free of fines (for accelerated repayment).

Based on the above conditions, this paper focuses on the discussion of synergy conducted by Sharia Banking with Fintech in the context of developing MSMEs. Synergy discussion is carried out starting from the opportunities that arise, the patterns of synergy that are formed, the benefits obtained and the challenges and risks that will arise in the future.

Table 1.
Provisions on
the Size of the
MSMEs Credit
/ Financing
Ratio to the
Total Credit /
Financing of
Commercial
Banks

Year	MSMEs Credit / Financing Ratio to total Credit / Financing
2013	In accordance with the ability of the Bank (stated in the RBB)
2014	
2015	Lowest of 5%
2016	Lowest of 10%
2017	Lowest of 15%
2018 and so on	Lowest of 20%

METHOD

In this paper, a qualitative research approach was chosen with the aim of getting a comprehensive picture of the synergy phenomenon between Sharia Banks and Fintech that is in accordance with facts or findings in the field. The selection of a qualitative approach was also carried out so that the focus of the problem to be discussed was far more in-depth and specific. The object of research includes entities with an interest in supporting the creation of existing synergy, namely the Otoritas Jasa Keuangan (OJK) as a regulator, BNI Syariah representing Sharia Banks and Ammana Fintek Syariah as one of the Sharia Fintech's that have begun to synergize with BNI Syariah.

The type of data used in this study consisted of two types, namely primary data obtained from the results of direct interviews (face to face) and the results of observations made and secondary data of this study came from data sources that support the analysis of primary data. Secondary data in this study in the form of statistical data, reports and documents and regulations relating to the focus of research. Primary research data sources were obtained through interviews of the sources while secondary research data sources were obtained through publication media, namely the official website presented by the State Authority or Institution/function that has the authority and functions related to the research data. The source of the data comes from the website of Departemen Perizinan dan Informasi Perbankan, Otoritas Jasa Keuangan (OJK), Badan Pusat Statistik (BPS), Bank Indonesia (BI), Asosiasi Penyelenggara Jasa Internet Indonesia dan Kementerian Koperasi dan UKM.

Data analysis in this study was carried out manually using inductive qualitative analysis, which is an analysis based on the data obtained, then developed a certain relationship pattern. Data analysis in qualitative research was carried out since before entering the field, while in the field and after completion in the field. Sugiyono (2012) states that data analysis has begun since formulating and explaining the problem, before going into the field, and continues until writing the results of research. However, data analysis in this study is more focused during the process in the field along with the data collection process.

RESULTS AND DISCUSSION

The existence of several factors of weakness or shortcomings that are owned by MSMEs, making access to capital support from Sharia Banking to MSMEs limited. The majority factor is also a characteristic of the character of MSMEs in Indonesia which is something that is avoided by Sharia Banking in channeling its financing to MSMEs. On the other hand, the rapid development of usage smartphome and internet as well as the Sharia Fintech industry with its advantages brings new opportunities to be a solution in bridging

the gap between Sharia Banking and MSMEs in terms of supporting access to capital. The findings obtained from the interview process are summarized in **Figure 1**.

The weaknesses, advantages and opportunities that have become the impetus for Sharia Banking and Fintech to synergize in supporting the development of MSMEs through the provision of access to capital. In addition, with this synergy, Sharia Banking and Fintech will be able to create products and services that are suitable to the needs of MSMEs as well as efficiency in accessing access to MSMEs.

Synergy Opportunities between Sharia Banks and Fintech in the Development of MSMEs in Indonesia

The presence of Fintech will be one of the solutions to the limitations of Sharia Banking in supporting MSMEs capital. Fintech can be a solution because it has the potential to be able to reach MSMEs along with the increasing use of smartphones and internet services. Collaboration between Fintech and Sharia Banking can certainly help in creating added value and increasing competitiveness through services to customers that are more solid, responsive and have a higher level of customer relations. Fintech can be of great benefit to the Sharia Banking industry, among others, as analytic data that can analyze the habits and needs of customers, so that more efficient products and services can be created, customized online services that are able to serve customers online according to their needs and cost saving services which can improve the efficiency of bank marketing activities and the accuracy of their targets. Based on Fintech financial data (peer to peer lending) published by OJK the portfolio of lending funds through the Fintech scheme peer to peer (P2P) lending has increased in the past year in **Figure 2**.

The increase in the number of financing transactions indicates that there is a significant demand from MSMEs for financing through the Fintech P2P lending. The increase is having the opportunity to continue to grow along with the increase in information and education about Fintech P2P lending. In terms of Sharia Banking, MSMEs is one of potential markets the huge in terms of financing distribution. OJK data related to increased financing distribution from Sharia Banking for MSMEs in the last 5 (five) years as presented in **Figure 3**.

Based on these data it can be seen that Sharia Banking continues to strive to support MSMEs capital, on the other hand they are also demanded by regulators to contribute to MSMEs through financing distribution. This is regulated through by Bank Indonesia Regulation (PBI) No. 14/22/PBI/2012 regarding Lending or Financing by Commercial Banks and Technical Assistance in the Context of MSMEs Development. Article 2 of the PBI stipulates that commercial banks are required to provide financing to MSMEs in stages.

In terms of the MSMEs, they are also demanded to continue to develop their business. This is in accordance with Government Regulation of the Republic of Indonesia No. 17 of 2013 concerning the Implementation of Law Number 20 of 2008 concerning Micro, Small and Medium Enterprises, where Article 8 Paragraph 4 states that Micro, Small and Medium Enterprises must carry out business development, one of which is by utilizing technology and finding resources wider business funding.

Therefore, by utilizing financial technology (Fintech), MSMEs can have access to funding for their business more broadly. Government support is carried out through BI to stimulate synergy between Sharia Banks and Fintech by establishing the BI Fintech Office (BI-FTO) on November 14, 2016 as the center of Fintech development in Indonesia. It is

hoped that the BI-FTO can be a catalyst or facilitator in terms of exchanging innovative ideas for the development of Fintech in Indonesia, can provide updates through the results of studies and meetings including with relevant ministries and authorities as well as international institutions.

The Fintech Company continues to synergy with various pre-existing financial institutions. This is in line with POJK No. 13/POJK.02/2018 concerning Digital Financial Innovation in the Financial Services Sector Article 37 Paragraph 1 which states that Fintech that has been registered and/or registered with OJK can work together with Financial Services Institutions to create synergy in the digital financial innovation ecosystem.

Based on data from OJK, we can know that as of December 2018 the total number of Fintech organizers registered and licensed at OJK reached 88 companies. In addition, to date there have been 8 Sharia Fintech companies currently in the registration process at the OJK. OJK will prioritize increasing the number of existing Sharia Fintech, aside from the very small amount, as well as we all know that the potential of the sharia market in Indonesia is still very large. With the OJK commitment to encourage and stimulate the registration of new Sharia Fintech companies, the OJK will be more concerned and responsive in reviewing any issues regarding Sharia Fintech submissions, so that the OJK can accelerate the leveling and licensing processes. In addition, POJK No. 77/POJK.01/2016 states that Fintech is required to cooperate with the Bank, one of which is in terms of providing services escrow and virtual accounts for distribution of loan payments. To improve the quality of human resources at Sharia Fintech, in the future OJK will collaborate with DSN-MUI to create a training program for each prospective DPS (Sharia Supervisory Board) member at Sharia Fintech. This is important because every Sharia Fintech must have a DPS as supervisor in the sharia sector that is appointed or has obtained a recommendation from DSN-MUI.

For Sharia Banking, the market is MSMEs still an attraction and a target to be served. The opportunity to synergize with Fintech is one of the solutions for Sharia Banks to reach the market. From the perspective of the OJK, the opportunity to build synergy between Sharia Banks and Sharia Fintech in Indonesia is very large considering the background of the majority of the Indonesian population is Muslim. So that the opportunity for people to choose sharia-based financial institutions is also very large. That can be utilized by the Sharia Banking and Sharia Fintech to develop their business in a mutually beneficial manner. The collaboration opportunity is getting stronger because Sharia Fintech is present by bringing its strength in the IT and Bank fields with the reliability of its infrastructure.

Synergy Patterns Between Sharia Banks and Fintech in Developing MSMEs in Indonesia

Cooperation between Sharia Banks and Sharia Fintech can be done through several schemes, including the following:

1. Collaboration with cross selling schemes, namely cooperation between Sharia Banks and Sharia Fintech where the Sharia Bank can sell the products or services it has to customers from Sharia Fintech and vice versa. Sharia Fintech is required by OJK to have an escrow account at a Sharia Bank. This was done to support the application of sharia principles in all aspects of Fintech's operational activities. The collaboration escrow account can help develop the sharia economic ecosystem in Indonesia through cross selling or product sales through collaborative partners. Collaboration with this scheme is currently underway and many occur between the banks and Fintech. The scheme cross selling is as presented in the **Figure 4**.

2. Collaboration with channeling and joint financing schemes can be carried out between Sharia Banks and Sharia Fintech, namely:
 - a. Collaboration with channeling scheme, where Sharia Banks become lenders at Fintech. So, Sharia Banks in this case will act as lenders (investors) on Fintech, while Sharia Fintech has the duty to find prospective borrowers. The risk arising from this activity lies with the party that owns the funds (Sharia Banks), while the Sharia Fintech only acts as a manager and obtains rewards or fees from the management of these funds, see **Figure 5**.
 - b. Cooperation with joint financing schemes, namely the source of funds (lenders) for financing at Sharia Fintech must come from Sharia Banks and other parties, which can come from lenders other such as individuals or companies. Risks arising from joint financing are borne by each party proportionally in accordance with the amount of funds spent, see **Figure 6**.
3. Collaboration with a scheme is referral carried out in the following:
 - a. Fintech searches for prospective customers to be offered financing from the Bank. The bank will distribute its financing to these customers directly in accordance with the terms and conditions applicable at the Bank. Fintech can play a role in the scheme because Fintech has applications that can be accessed by the public through an electronic system, so that information can be more quickly, easily and effectively spread compared to through the Bank outlets whose coverage areas are also relatively limited, see **Figure 7**.
 - b. When a prospective customer has applied for a loan from the Bank, but because there are Bank conditions and requirements that have not been met, the Bank will inform the prospective customer that there is a Fintech who can find a loan. Prospective customers can register in advance at Fintech to be able to find prospective investors (lenders) by Fintech. In this scheme, the Bank only provides references to prospective customers to apply for a loan at the Fintech, see **Figure 8**.
4. Collaboration with shadow investors. Under the scheme, Sharia Bank offers financing projects through Sharia Fintech to lenders. However, in the offer Sharia Fintech did not inform the lenders that the financing project was driven by the Sharia Bank. With this scheme, funding will be obtained from lenders registered with Sharia Fintech. Meanwhile, the owner of the project to be financed is a customer of the relevant Sharia Bank. The yield for Sharia Fintech is obtained from the fee lender, while the Sharia Bank will get it from the project owner, see **Figure 9**.
5. Collaboration with an outsourcing platform which is a collaboration between Sharia Bank and Sharia Fintech which is almost similar to the shadow investor scheme, the difference only lies in more open information to lenders about the Sharia Bank as the promoter of the financing, see **Figure 10**.
6. Collaboration with the development of Fintech or digital financing platforms by acquiring Sharia Fintech or collectively together with Sharia Banking and Sharia Fintech to form a Fintech consortium. Lenders can directly finance projects offered through Fintech from Sharia Banking or a consortium. The acquisition scheme or consortium Fintech, this is as shown in the following image, see **Figure 11**.

Benefits of Synergy Between Sharia Banks and Fintech in the Development of MSMEs in Indonesia

The development of Fintech is driven by the need to fill the high gap of MSMEs financing in Indonesia although it has accelerated well but has not been fully achieved by other financial institutions existing so far. This is because it is constrained by the age of MSMEs who are still young, the lack of data availability and the absence of collateral. Therefore, through Fintech it is hoped that MSMEs in Indonesia can develop into bankable, so that between Fintech and financial services incumbent can synergy to support and complement each other. With synergy, both in terms of Banking and Fintech will create a relationship of mutualism (mutual benefit). Banks that have a broad customer base and can provide convenient services, while Fintech, which has speed, sophistication and the latest and more efficient, can work together in serving customers that continue to grow in line with current technological developments. In addition, the advantage gained by customers in borrowing through Fintech is that the overall financing process is faster and more efficient, especially in terms of time. That is because almost all the necessary processes are carried out online, both service opening, submission, distribution and funding. As a Fintech company, Ammana Fintek Syariah has ideals not only to provide service excellence in terms of channeling funds or access to capital for MSMEs, but Ammana Fintek Syariah also wants to educate the public through socialization, interaction and education related to financial services to the public. This is what OJK has also required Fintech to participate in financial literacy. Such a method is deemed effective enough to be implemented through Fintech because Fintech has a data base on the profiles of various MSMEs.

To continue to encourage the development of Fintech companies in Indonesia, OJK has established the Fintech Center (OJK innovation Center for digital financial technology/OJK INFINITY). The Fintech Center serves to build the Fintech ecosystem that is beneficial to the community. At the Fintech Center, startups can discuss, synergize with Fintech industry players, and test their business models through regulatory sandboxes. From the perspective of OJK, Sharia Fintech strongly encourages the development of MSMEs in the real sector because basically Sharia Fintech is indeed designed or regulated to target the market share. These settings OJK is carried out by applying restrictions on the provision of funding for each MSMEs business actor, which is a maximum of Rp2.000.000.000 (two billion Rupiah). OJK as a regulator focuses on the impact of synergy between Sharia Banks and Fintech based on the interests of the community, that is if the synergy brings good and positive impact on the community, the OJK will in principle fully support it. OJK hopes that Fintech will have a high level of financing distribution but is also supported by healthy quality. With the realization of this synergy, of course, the community also increasingly has alternative choices, both for investments based on sharia principles and to obtain financing according to sharia. In addition, this synergy can help efficiency and accelerate the penetration of financial services in all strata of society spread to remote areas.

The synergy between Sharia Bank and Fintech will provide opportunities for the creation of innovative products for the development of MSMEs in Indonesia, will stimulate and facilitate financial services that are comfortable, safe and improve financial education and literacy, especially for areas that have been limited with financial services. In addition, the benefits for Banks with the synergy with Fintech is one of them, in order to encourage bank financing in the MSMEs segment. So that for Banks, it can increase the MSMEs financing market share through this synergy. That way, the overall portion of MSMEs financing will also go up.

123 Challenges and Risks Synergy Between Sharia Banks and Fintech in the Development of MSMEs

In order to realize synergy between Sharia Banks and Fintech, there are certainly challenges that need to be dealt with and addressed wisely and by each industry. The challenge is considered reasonable, given the synergy that must be built is from two industries from different eras. Following are some of the challenges that exist in order to create synergy between Sharia Banks and Fintech.

1. Human Resources: The availability of human resources in the Fintech industry and competencies in information technology (IT) and accounting;
2. Regulations: Regulations and certifications for workers and experts in the field of Sharia Fintech, rules regarding sharia financial accounting standard guidelines, specifically for Sharia Fintech, adoption of regulations related to digital signatures, Electronic Know Your Customer (E-KYC), electronic rating (E-rating) and digital document use and relaxation from regulators for Fintech players who have good performance results and special regulations for Fintech according to their type;
3. Infrastructure: The Government can encourage the development of local server companies and the Government is required to be able to provide internet network infrastructure in eastern Indonesia;
4. Other: Domination from Banks and other financial institutions that previously existed, there are not many stakeholders who are well acquainted with Sharia Fintech, increased coordination between related institutions and ministries needs to be done because to optimize Fintech's potential with the business environment and increasing socialization and education to the public in introducing Sharia Fintech.

On the other hand, with the existence of synergy between Sharia Banks and Fintech of course there will be risks that must be immediately mitigated properly by various stakeholders including the Government therein. Some of the risks faced by Fintech actors are regarding the trust of the community (Fintech's credibility). Fintech is a new industry with very rapid development and on the other hand, this industry has quite interesting experience in other countries such as China. Poor experience occurred in China where at that time the country of China had a very large number of Fintech companies, but in the end, it was problematic and collapsed. The public will look at aspects of the legality of Fintech companies, namely regarding the status of Fintech registration and licensing in the regulator. This has become one of the challenges for Fintech companies to be able to convince Banks and the public. Banking concerns about the sustainability of Fintech's business, namely regarding solutions when Fintech experiences problems.

Regarding risks, the OJK urges that each party must understand their own risks. Fintech functions only as a platform or media, but the decision lender's in choosing a borrower is a personal decision so the risk must be borne by himself. One of them is the risk of default from borrowers due to the decrease in the business they run, so this is a risk that must be accepted by lenders. This can be minimized by a strict selection or scoring stage from Fintech. Sharia Fintech indeed has a very high risk because the majority of borrowers are underserved and unbankable people. Nevertheless, high risk certainly has potential return a high. This has become the choice for lenders, dare to take risks (risk takers) or not.

OJK strategy in anticipating risks that will arise from the synergy between Sharia Banks and Fintech is, by mitigating the risk of funding provided, for example if lenders make investments to borrowers, it is necessary to include guarantees such as by using companies

guarantee such as Askrindo, Jamkrinda, Jamkrindo or insurance company. Fintech's operational activities are permitted without the use of guarantees or guarantors, but are not allowed to conduct business activities other than those stipulated in POJK No.77/POJK.01/2016, is Fintech functions only as a platform. While for Fintech, which is accompanied by a guarantee, it must cooperate with other institutions that are authorized to carry out the guarantee. In addition to anticipating the risk of Fintech's credibility, it is necessary to conduct socialization and education to the general public regarding the existence of Sharia Fintech that has been registered and licensed in the OJK. OJK will also conduct regulation and supervision of Fintech strictly through auditing Fintech's compliance with existing and applicable rules.

CONCLUSION

The opportunity to create synergy between Sharia Banks and Sharia Fintech in order to develop MSMEs in Indonesia is very wide open. This is motivated by the gap or distance of capital support from Sharia Banks for MSMEs actors. Pattern or model of synergy between the Sharia Bank and Sharia Fintech that can be done through several schemes of cooperation, namely cross-selling scheme, channeling schemes, joint financing scheme, Fintech or Bank referral schemes, shadow investor scheme, outsourcing platform schemes and development Fintech by acquiring Sharia Fintech or collectively together Sharia Banking and Sharia Fintech formed a Fintech consortium.

The benefit of establishing synergy between Sharia Banks and Fintech in the context of developing MSMEs is that the public increasingly has alternative choices in investing or obtaining sources of financing in accordance with Sharia principles; implementation of MSMEs empowerment through the provision of training and assistance in order to increase the productivity and competitiveness of MSMEs through the participation of Sharia Banks and Sharia Fintech; provide opportunities for the creation of innovative new products for the development of MSMEs in Indonesia; stimulating and facilitating financial services that are practical, comfortable and safe and improve financial education especially for areas that have so far been limited with financial services; and encourage financing in the MSMEs segment, so that both Sharia Banks and Sharia Fintech can increase the MSMEs financing market share, which as a whole can increase the portion of financing to MSMEs.

The challenges in synergy between Sharia Banks and Fintech in enhancing the development of MSMEs, namely the need for support from regulators for policy relaxation in developing synergies between Sharia Banks and Sharia Fintech; availability of human resources that has competence in the field of Sharia Fintech, specifically in the fields of finance and IT; the availability of internet network infrastructure in various regions, especially in eastern Indonesia; intensive and even outreach and education programs for the community; not many stakeholders are familiar with Sharia Fintech, such as the Ministry, Institution, DSN-MUI and others; and still dominates the industry of Sharia Banks and other financial institutions compared to Sharia Fintech. On the other hand, the risks faced are credibility risk, technology risk, default risk and operational risk.

Sharia Banking is recommended to be willing to be a trigger in cooperating with Sharia Fintech to synergize through other mutually beneficial cooperation patterns or schemes, such as joint financing schemes and not just cross selling schemes. The synergy can be carried out by Sharia Banks, by first opening up opportunities for cooperation with Sharia Fintech to the widest possible extent; The Sharia Fintech company is recommended to strengthen the analysis of prospective MSMEs that will be offered to be funded by lenders and to maintain the stability of the platform or Fintech application from system failures.

This is done so that the credibility or public trust in the sustainability of the Sharia Fintech business can be improved and for the Regulator it is recommended to be able to make rules or policies specifically aimed at stimulating the realization of the synergy between Sharia Banks and Sharia Fintech.

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APPENDIX

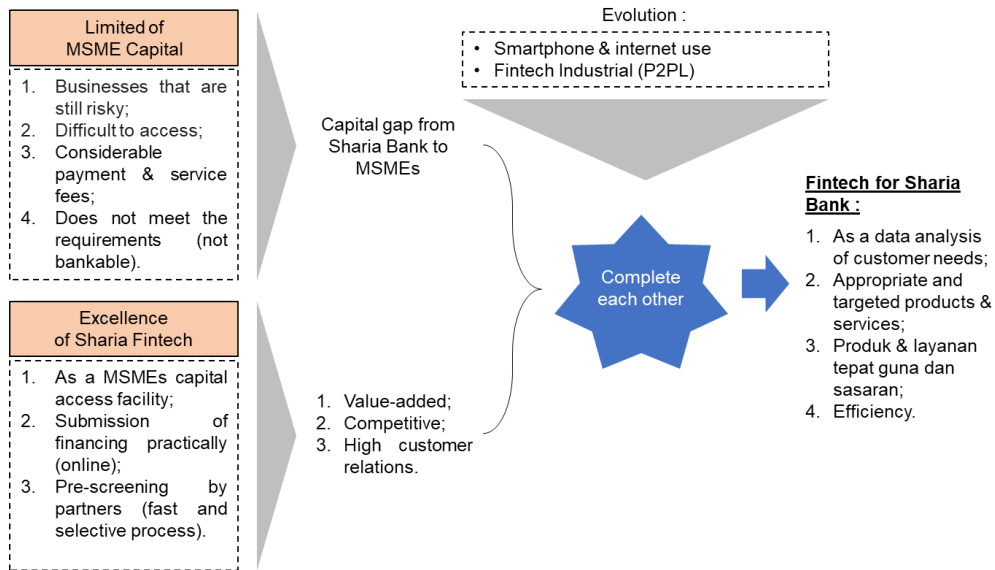


Figure 1.
Summary of Results and Research Findings

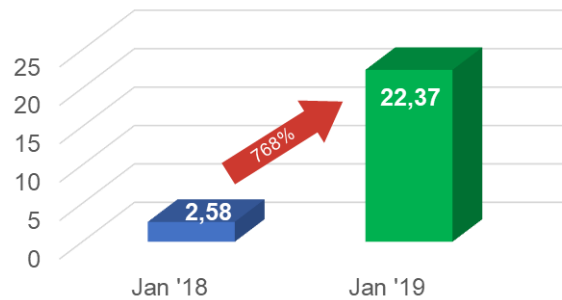


Figure 2.
Financing Distribution of Fintech

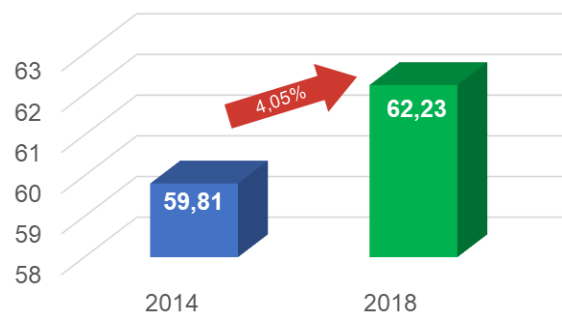


Figure 3.
Financing Distribution of Sharia Banking to MSMEs

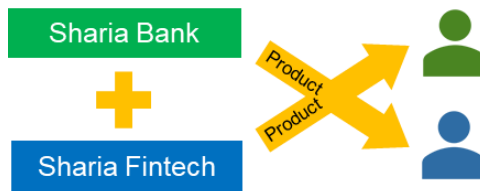


Figure 4.
Cross Selling
Scheme

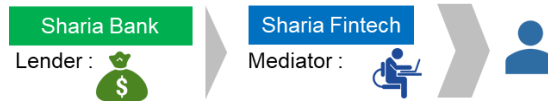


Figure 5.
Channeling
Scheme

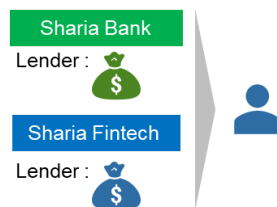


Figure 6.
Joint Financing
Scheme



Figure 7.
Fintech Referral
Scheme



Figure 8.
Bank Referral
Scheme

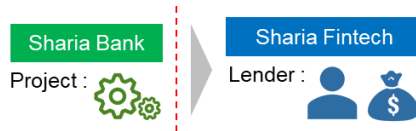


Figure 9.
Shadow Investor
Scheme



Figure 10.
Outsourcing
Platform Scheme

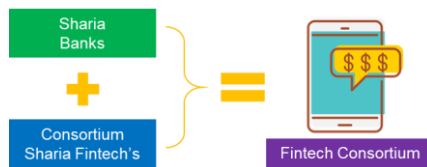


Figure 11.
Acquisition or
Fintech Consortium
Scheme
